

Shipbuilding. The Administration's request of \$11 billion for shipbuilding and conversion includes \$9.8 billion for new construction of 16 ships, \$0.8 billion for conversion of 4 ships, and \$0.5 billion for outfitting, post delivery, and other craft. The major increases over 1987 are \$644 million in anticipation of future funding requests for two nuclear aircraft carriers (1988 funding would be for items requiring advance procurement) and \$730 million to extend the service-life of the U.S.S. Kitty Hawk aircraft carrier. The DoD asserts that to sustain a force of 15 aircraft carriers into the next century, and to maintain a stable work force, the Navy plans to request two carriers--one in 1990 and the other in 1993. The construction of these ships would begin as soon as the two that were authorized in 1983 are delivered. Plans to build these carriers were not included in last year's five-year defense plan.

Missiles. The Administration's request for other missiles, torpedoes, and weapons procurement increases in real terms by 13 percent in 1988 and 11 percent in 1989, after a 10 percent decline in 1987. The request for 1988 calls for 115,134 tactical missiles compared with 104,068 in 1987. Seventeen of 24 weapons in this category would be procured at higher rates and 11 of these would experience declines in unit costs. For five of the seven systems procured at a slower rate, unit costs would increase (see Table IV-9). The largest cost growth would occur for the Sidewinder missile (156 percent) and the IIR Maverick missile procured by the Navy (105 percent). The Army, Navy, and Marine Corps all procure the Stinger missile and show declines in unit costs, but the Army's costs decline by 35 percent, the Marine Corps' by 13 percent, and the Navy's by 9 percent. In contrast, the Air Force would procure HARM missiles at unit prices 11 percent lower than last year, but the Navy expects prices to be 7 percent higher.

Communications Equipment. The funding request for communications and electronic equipment, ranging from radios for tactical forces to remotely piloted vehicles, totals \$8 billion in 1988. After adjusting for inflation, this is the same real level as 1987. The largest single program is the Army's Mobile Subscriber Equipment (MSE)--field telephones--which accounts for \$1 billion of the \$8 billion total. MSE funding would increase by about \$100 million over 1987 and a wide variety of other tactical programs in the Army would receive another \$650 million in real funding growth. The Army's increases are offset by reductions to Navy and Air Force programs.

Spare Parts. Funding for procurement of spares and repair parts would decline by about 6 percent in real terms in 1988. Proposed funding for Army, Navy, and Air Force aircraft spares as well as funding for Navy and Air Force missile spares would decline.

TABLE IV-9. SELECTED PROGRAM CHANGES IN THE 1988 REQUEST
FOR OTHER MISSILES, TORPEDOES, AND WEAPONS
PROCUREMENT (By fiscal year, in millions of dollars
of budget authority and percents)

| Weapon | 1988 Request | | Percent Change from 1987 | |
|-------------------------------------|--------------|---------|-----------------------------|-----------|
| | Quantity | Dollars | Quantity | Unit Cost |
| Increases | | | | |
| AMRAAM Missile | 630 | 837 | 250 | -59 |
| MK-48 Torpedo | 100 | 256 | 100 | -48 |
| Stinger Missile (Army) | 4,200 | 200 | 1 | -35 |
| Harpoon Missile | 124 | 172 | 29 | -32 |
| Phoenix Missile | 430 | 399 | 110 | -31 |
| ALWT Torpedo | 153 | 227 | 292 | -17 |
| IIR Maverick Missile (Air Force) | 2,100 | 364 | 5 | -12 |
| Stinger Missile (Marine Corps) | 3,067 | 137 | 121 | -13 |
| HARM Missile (Air Force) | 1,748 | 432 | 26 | -11 |
| Tomahawk Missile | 475 | 1,016 | 47 | -8 |
| Patriot Missile | 715 | 985 | 2 | -7 |
| IIR Maverick Missile (Navy) | 601 | 104 | 43 | 105 |
| TOW 2 Missile (Army) | 9,416 | 140 | 1 | 19 |
| Sparrow Missile (Air Force) | 558 | 100 | 60 | 8 |
| Sidarm Missile | 276 | 26 | 8 | 4 |
| Hawk Missile | 525 | 162 | 22 | 4 |
| Sidewinder Missile (Air Force) | 956 | 53 | 29 | -- |
| Decreases | | | | |
| Sidewinder Missile (Navy) | 288 | 43 | -54 | 156 |
| Ground-Launched Cruise Missile | 37 | 77 | -51 | 24 |
| TOW 2 Missile (Marine Corps) | 2,680 | 27 | -18 | 18 |
| Laser Maverick Missile (Navy) | 1,099 | 117 | -39 | 11 |
| HARM Missile (Navy) | 766 | 205 | -29 | 7 |
| Standard Missile | 1,150 | 600 | -4 | -15 |
| Stinger Missile (Navy) | 425 | 21 | -38 | -9 |

SOURCE: Compiled by Congressional Budget Office based on data supplied by supplied by the Department of Defense.

Vehicles. Funding for procurement of vehicles--primarily for the Army and Marine Corps--would fall by about 15 percent in real terms in 1988. This category buys all kinds of vehicles from trucks and other wheeled support vehicles to tanks and other tracked combat vehicles; consequently, it is not easily summarized. Focusing on major combat vehicles, about 550 fewer vehicles would be purchased in 1988 than in 1987. These reductions are accompanied by dissimilar changes in unit costs--the number of M-1 tanks purchased would decline by 25 percent but unit costs would rise 8 percent; numbers of Bradley fighting vehicles would decline 7 percent but unit costs would fall by 14 percent; yet a 50 percent cut in the quantity of a support vehicle for field artillery ammunition produces no change in unit costs.

Weapons Modifications. The budget for weapons modification would decline by 37 percent in real terms in 1988. Modifications of major weapons result in improvements ranging from small programs aimed at the reliability or maintainability of parts of a weapon to large-scale programs that add new capabilities to existing weapons or extend their useful lives. The real decline in the 1988 request is caused by reductions in aircraft modifications, the larger of which include the HH-53 helicopter and C-135 and B-52 aircraft in the Air Force and A-6, F-14, and S-3 aircraft in the Navy.

Ammunition. Ammunition procurement, like spare parts procurement, is sometimes considered to be a readiness activity. The 1988 request would decrease servicewide ammunition procurement by 16 percent from the 1987 level, although the Administration plans to increase the Army ammunition account, which includes \$60 million for chemical weapons. The programs of the other services would decline in nominal terms, but retain \$60 million for the Air Force and \$10 million for the Navy for the BIGEYE bomb--a chemical weapon.

Ballistic Missiles. Procurement of ballistic missiles in 1988 would total \$3.6 billion--one of the smallest amounts shown in Table IV-7--for a 38 percent, or \$1 billion increase in real terms. The increase is attributable to the Trident II program; this submarine-launched ballistic missile would receive \$2.3 billion in funding for 66 missiles--45 more missiles and \$900 million more dollars than in 1987--and unit costs would decline by 49 percent. The Administration also proposes buying 21 MX-missiles for \$1.3 billion--a 75 percent increase in quantity from 1987 levels, accompanied by a 36 percent decline in unit costs. These reductions in unit costs are probably the result of spreading fixed costs over a greater number of weapons, plus achieving efficiencies from more experience with production.

Research, Development, Test, and Evaluation

RDT&E funding is usually the first commitment to a weapons acquisition program, and it continues through the early stages of production. The Administration is seeking funds to continue the increases in RDT&E funding that have averaged 10 percent annually in real terms since 1980. The 1988 RDT&E budget of nearly \$44 billion represents an increase in budget authority of \$5.9 billion, or 17 percent (both in real terms), over 1987 levels.

Nearly all activities in the RDT&E account would experience real growth as shown in Table IV-10. The technology base, in which basic research is conducted in areas involving physical, mathematical, environmental, engineering, biomedical, and behavioral sciences, would receive about a 2 percent increase. Advanced technology development would grow about 40 percent, largely because of a proposed \$5.2 billion request (a \$2 billion increase over 1987) in the Strategic Defense Initiative (SDI). Whereas programs like SDI explore emerging technologies that have potential applications for defense, the request for RDT&E calls for a 18 percent real increase in strategic programs that have already passed these early develop-

TABLE IV-10. REAL CHANGES IN RESEARCH, DEVELOPMENT, TEST, AND EVALUATION (By fiscal year, in billions of dollars of budget authority and percent)

| Activity | 1988 Request (Dollars) | 1986-87 (Percent) | Real Changes | | |
|----------------------|------------------------------|----------------------|----------------------|--------------------|----------------------|
| | | | 1987-1988 Percent | 1988-89 Dollars | 1988-89 (Percent) |
| Technology Base | 3.4 | -4 | 2 | 0.1 | 3 |
| Advanced Technology | | | | | |
| Development | 7.2 | 17 | 40 | 2.1 | 14 |
| Strategic Programs | 10.0 | 4 | 18 | 1.5 | -11 |
| Tactical Programs | 13.7 | 4 | 20 | 2.3 | -3 |
| Intelligence and | | | | | |
| Communications | 5.3 | 5 | 3 | 0.1 | -12 |
| Defense-wide Mission | | | | | |
| Support | <u>4.2</u> | <u>-3</u> | <u>-3</u> | <u>-0.1</u> | <u>-3</u> |
| Total | 43.7 | 4 | 17 | 5.9 | -3 |

SOURCE: Compiled by Congressional Budget Office based on data supplied by the Department of Defense.

mental stages. The increase in strategic programs reflects a \$2.2 billion commitment to research on a small ICBM--the so-called Midgetman--and nearly \$0.6 billion for research on a new railroad car basing mode for another 50 MX Missiles. In addition, the budget would provide \$0.4 billion to extend the B-1B flight test program and \$0.4 billion for the antisatellite program (Space Defense System).

The 20 percent increase in tactical programs for 1988 results from a number of programs, the larger of which include the Air Force's C-17 cargo aircraft (\$1.2 billion), the Advanced Tactical Fighter (\$0.5 billion), and the Army's LHX light helicopter (\$0.4 billion). The planned increase of 3 percent in intelligence and communications would be offset by a 3 percent decline in defense-wide programs (that is, programs with many and diverse applications).

Other Accounts

Military construction and family housing funds support both weapons and personnel programs. The Administration's request for military construction would fund many projects within the United States and overseas, including the Strategic Defense Initiative (about \$125 million), Navy Strategic Homeporting (about \$280 million), and the Light Infantry Divisions (about \$300 million) in New York and Alaska. The family housing program provides living accommodations for service members and their families, particularly in areas where private housing is scarce. The increase in funding for family housing would allow the building of 6,041 units in 1988 and 6,198 in 1989. The 1987 budget called for 5,349 units to be constructed.

The Department of Energy (DOE) conducts research and production programs for nuclear weapons and materials. DOE also administers programs for storing nuclear waste and for designing nuclear reactors for naval vessels. The Administration has requested a real increase of about \$400 million, or 4 percent, over the 1987 budget for these programs. The largest real percentage increases are for nuclear safeguards and waste management--20 percent and 16 percent, respectively.



CHAPTER V

THE ADMINISTRATION'S NONDEFENSE BUDGET

The President's proposals would result in nondefense outlays of \$742 billion in 1988, an increase of less than 2 percent over the 1987 level and about 5 percent, or \$39 billion, below the CBO baseline. Over the subsequent four years, growth in nondefense spending would average less than 4 percent per year, compared with over 5 percent in the baseline. Total reductions in nondefense spending over the 1988-1992 period would be \$335 billion relative to the CBO baseline.

Human Resources Programs

Spending for human resources programs will account for over two-thirds of nondefense outlays in 1987. Under the President's proposals, outlays for such programs would continue to grow steadily over the 1987-1992 period, by an average of 5.6 percent a year. Under CBO baseline assumptions, however, they would grow by over 7 percent per year. The resulting savings relative to the baseline would total \$167 billion from 1988 through 1992, a reduction of about 5 percent. (The dollar savings for each function are summarized in Table V-1; the percentage reductions are shown by function in Table V-2.)

Medicare (570) is targeted for the largest dollar reductions in any non-defense program, accounting for one-sixth of all proposed reductions in non-defense spending. As in previous years, the President proposes to increase premiums and deductibles and to reduce payments to hospitals and physicians. This year the Administration also plans to slow the payment of bills, resulting in 1988 savings of \$2 billion. Total five-year Medicare savings would equal \$53 billion, 10 percent of baseline spending.

Other federal spending on Health (550) would also be reduced sharply. Federal Medicaid spending would be capped below baseline levels in 1988 and allowed to grow only with increases in medical prices. Five-year Medicaid spending would be reduced almost \$22 billion. The Administration also proposes to cap spending for the Public Health Service at 1987 levels, saving an estimated \$11 billion over the projection period. Finally, the President would reduce federal spending for Federal Employees Health Benefits.

TABLE V-1. CBO ESTIMATES OF THE ADMINISTRATION'S PROPOSALS IN NONDEFENSE SPENDING (By fiscal year, in billions of dollars)

| Budget Function | Increase or Decrease (-) in Outlays Relative to CBO Baseline | | |
|---|---|-------|--------------------|
| | 1988 | 1992 | Total 1988-1992 |
| Above Baseline Over Five Years | | | |
| International Affairs (150) | -0.2 | 0.5 | 2.4 |
| General Science, Space, and Technology (250) | 0.5 | 2.0 | 7.5 |
| General Government (800) | 0.9 | 0.7 | 4.9 |
| Subtotal | 1.2 | 3.2 | 14.8 |
| Below Baseline Over Five Years | | | |
| Human Resources | | | |
| Education, Training, Employment, and Social Services (500) | -4.1 | -11.7 | -40.2 |
| Health (550) | -3.3 | -11.7 | -37.8 |
| Medicare (570) | -5.1 | -17.2 | -52.7 |
| Income Security (600) | -4.2 | -8.2 | -31.6 |
| Social Security (650) | -0.1 | -0.5 | -1.6 |
| Veterans' Benefits and Services (700) | -0.7 | -0.6 | -3.3 |
| Subtotal | -17.5 | -49.9 | -167.2 |
| Natural Resources, Infrastructure, and Other Government Services | | | |
| Energy (270) | -2.1 | -2.6 | -13.1 |
| Natural Resources and Environment (300) | -1.4 | -4.0 | -13.0 |
| Agriculture (350) | -5.1 | -9.5 | -32.9 |
| Commerce and Housing Credit (370) | -4.0 | -6.0 | -24.5 |
| Transportation (400) | -1.7 | -5.1 | -18.7 |
| Community and Regional Development (450) | -1.4 | -2.6 | -11.4 |
| Administration of Justice (750) | 0.1 | -0.6 | -2.0 |
| General Purpose Fiscal Assistance (850) | -0.3 | -0.5 | -2.0 |
| Subtotal | -15.9 | -31.0 | -117.5 |
| Other | | | |
| Net Interest (900) | -1.5 | -13.4 | -34.9 |
| Allowances (920) | -2.1 | -3.4 | -13.5 |
| Undistributed Offsetting Receipts (950) | -3.2 | -3.1 | -16.2 |
| Subtotal | -6.8 | -19.9 | -64.6 |
| Total | -39.0 | -97.6 | -334.5 |

TABLE V-2. CBO ESTIMATES OF THE ADMINISTRATION'S PROPOSALS IN NONDEFENSE SPENDING (By fiscal year, in percent differences from the CBO baseline)

| Budget Function | Percent Increase or Decrease (-) in Outlays Relative to Baseline | | |
|--|---|-----------|--------------------|
| | 1988 | 1992 | Total 1988-1992 |
| Above Baseline Over Five Years | | | |
| International Affairs (150) | -1 | 3 | 3 |
| General Science, Space, and Technology (250) | 5 | 16 | 13 |
| General Government (800) | 13 | 10 | 14 |
| Below Baseline Over Five Years | | | |
| Human Resources | | | |
| Education, Training, Employment, and Social Services (500) | -13 | -30 | -22 |
| Health (550) | -7 | -19 | -15 |
| Medicare (570) | -6 | -13 | -10 |
| Income Security (600) | -3 | -5 | -4 |
| Social Security (650) | <u>a/</u> | <u>a/</u> | <u>a/</u> |
| Veterans' Benefits and Services (700) | -3 | -2 | -2 |
| Natural Resources, Infrastructure and Other Government Services | | | |
| Energy (270) | -39 | -47 | -48 |
| Natural Resources and Environment (300) | -9 | -21 | -15 |
| Agriculture (350) | -17 | -45 | -26 |
| Commerce and Housing Credit (370) | -48 | -222 | -82 |
| Transportation (400) | -6 | -16 | -12 |
| Administration of Justice (750) | 1 | -6 | -4 |
| Community and Regional Development (450) | -21 | -35 | -33 |
| General Purpose Fiscal Assistance (850) | -17 | -22 | -20 |
| Other | | | |
| Net Interest (900) | -1 | -9 | -5 |
| Allowances (920) | -228 | -29 | -45 |
| Undistributed Offsetting Receipts (950) <u>b/</u> | 8 | 6 | 7 |

a. Less than 0.5 percent.

b. Offsetting receipts rise, decreasing the deficit.

Altogether, Medicare and other federal health spending would be reduced \$91 billion over the five years, accounting for over one-fourth of all proposed changes in nondefense spending.

The Administration also targets Education, Training, Employment, and Social Services (500) and Income Security (600) for large reductions-- \$40 billion and \$32 billion, respectively, over five years. The Administration proposes to limit the federal role in elementary and secondary education to programs targeted toward poor and disadvantaged children, saving \$11 billion over the five years. In higher education, grant aid and federal loan subsidies would be reduced sharply. Students and their parents would be asked to pay the full interest and insurance costs of loans. Savings in federal higher education programs would exceed \$22 billion. The President also proposes to sell college housing and facilities loans, which would save \$1 billion relative to the CBO baseline. In income security programs, the President proposes to reduce housing assistance and to substitute vouchers for the more traditional forms of assistance, generating five-year savings of almost \$9 billion. The Administration again proposes limiting cost-of-living adjustments in selected retirement and disability programs and limiting nutrition assistance only to low-income women and children. Five-year savings on retirement and nutrition programs would approach \$14 billion.

Social Security (650) would receive the smallest reductions. No benefit cuts are requested, and only administrative costs would be reduced. While Social Security represents almost 30 percent of nondefense expenditures over the period, the requested Social Security reductions are less than 1 percent of nondefense savings. The President also proposes relatively modest reductions in Veterans' Benefits and Services (700). Veterans' medical care would be held below baseline levels, and the origination fee on Veterans Administration loans would be increased. Spending in this function would be reduced \$3 billion, or 2 percent, below the baseline over the five years.

Natural Resources, Infrastructure, and Other Government Services

Spending on natural resources, infrastructure, and other government services currently account for less than one-fifth of nondefense outlays, or an estimated \$129 billion in 1987. Under CBO baseline assumptions, spending for these programs and activities is expected to grow only slightly over the 1987-1992 period, with 1992 outlays only 5 percent above the 1987 level. This slow projected rate of increase occurs largely because increases in some areas would be offset by declining net outlays, under current law, for farm price supports and thrift insurance.

The President's budget proposals would reduce spending in these areas by an average of 15 percent below the baseline over the five-year period, with a net reduction in outlays of \$103 billion. By 1992, spending under Administration policies would be about 17 percent below 1987 outlays, and almost 21 percent below the baseline.

The largest dollar savings from those policies--\$5 billion in 1988 and \$33 billion over five years--would be in Agriculture (350), with farm price support programs accounting for over \$24 billion of that amount. The costs of farm programs have spiraled to record heights in 1986 and 1987, and the Administration is proposing to cut back by reducing target prices by 10 percent a year and by imposing other limitations and tighter eligibility requirements for payments. In addition, the Administration would make deficiency payments to farmers later than assumed in the baseline, instead of making advance deficiency payments as has usually been done in recent years. (This change accounts for most of the 1988 savings.) Farm operating and ownership loans from the Farmers Home Administration would be eliminated in 1989 and beyond, and subsidized crop insurance would be phased out. No funding is included in the budget for a possible bailout of the Farm Credit System. In total, agriculture spending would be reduced by 26 percent below the baseline over the 1988-1992 period.

Substantial reductions would also be made in Commerce and Housing Credit (370), with outlays declining by \$25 billion over the five-year period relative to the CBO baseline. Sales of loan assets would produce net receipts of about \$2 billion in 1988 and \$4 billion over five years. In addition, the Administration would eliminate loans for low-income rural housing (to be replaced in part by housing vouchers), along with most direct lending for small business assistance and for construction of housing for the low-income elderly and handicapped. The Postal Service would have to raise postal rates in order to cover various costs that are now federally subsidized, and mortgage insurance fees charged by the Federal Housing Administration would be increased. Net outlays would be more than 80 percent below the baseline over the 1988-1992 period.

Proposed cuts in other functions, while not accounting for as much of a savings in dollars, represent sharp percentage reductions in net outlays. Energy (270) spending would be reduced by \$13 billion, or 48 percent, over five years--\$5 billion from the elimination of Rural Electrification Administration loans, \$4 billion from loan sales and prepayments, and the remainder from eliminating conservation grants, slowing oil purchases for the Strategic Petroleum Reserve, and reducing energy research and development and other programs. Community and Regional Development (450) funding would

also be cut--by about one-third below baseline levels. Appropriations for Community Development Block Grants would be reduced, while Urban Development Action Grants and a variety of other grant and loan programs for both urban and rural areas would be terminated.

Other functions are targeted for smaller reductions. Spending for Natural Resources and Environment (300) programs would fall about 15 percent below the baseline over the 1988-1992 period. Funding for the construction of wastewater treatment facilities would be gradually reduced, and spending would be below the baseline for most programs for development of water and recreational resources; conservation; toxic waste clean-up; and oceanic, atmospheric, and fisheries research. Transportation (400) spending would also be reduced, by an average of 12 percent below the baseline over five years, saving almost \$19 billion. The Administration would sharply reduce mass transit grants, constrain highway spending, eliminate Amtrak subsidies, and impose Coast Guard user fees. On the other hand, funding to modernize and improve the air traffic control system would be above baseline levels. Outlays for General Purpose Fiscal Assistance (850) would be about 20 percent, or \$2 billion, below the baseline, primarily reflecting the Administration's cost-sharing proposals that would result in reduced payments to states from timber and mineral receipts. Administration of Justice (750) spending would be only 4 percent below the baseline over the 1988-1992 period, because the elimination of funding for the Legal Services Corporation and for certain justice assistance grants, along with reduced funding for the Customs Service, would be partially offset by increases for the courts, prisons, and general legal activities.

The President's request for funding in functions 150, 250, and 800 is above five-year baseline levels, as was the case in the 1987 budget request. General Government (800) spending would be about \$5 billion, or 14 percent, above the baseline over the 1988-1992 period--largely because of increased expenditures for tax collection efforts of the Internal Revenue Service, and because of added spending to acquire and maintain federal buildings. Outlays for General Science, Space, and Technology (250) would be \$8 billion, or 13 percent, above the baseline, reflecting proposed spending for a space station and for increasing basic research grants of the National Science Foundation. Expenditures for International Affairs (150) would be about \$2 billion, or 3 percent, above the baseline. Increases for foreign military sales financing, military assistance grants, State Department operations, and contributions to multilateral development banks would be partially offset by reduced funding for a number of other activities and additional sales of Eximbank assets.

Other Nondefense Spending

The President's proposals for allowances, undistributed offsetting receipts, and net interest would result in net outlay reductions of \$65 billion, relative to the baseline, over five years. Savings in Allowances (920) would be obtained primarily by constraining federal pay raises relative to the CBO baseline assumptions. Allowances also include the estimated budgetary impact of the Administration's credit reform initiative, which would increase outlays over five years by \$5 billion. In total, outlays would be reduced by about \$14 billion over the 1988-1992 period. The Administration would derive an estimated \$16 billion in additional receipts, shown in Undistributed Offsetting Receipts (950), by selling the power marketing administrations, the Naval Petroleum Reserves, and licenses for the use of certain unassigned radio frequencies. These receipts would be partially offset by the loss of future income that would have been generated by the assets, estimated to be about \$3 billion over the first five years and reflected in function 270. Finally, Net Interest (900) spending would be reduced by \$35 billion over the five years, primarily because of the reduced deficits estimated for the President's policies.

The President's proposals for nondefense spending are discussed in more detail, by budget function, on the following pages.

FUNCTION 150: INTERNATIONAL AFFAIRS

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 150:
INTERNATIONAL AFFAIRS (By fiscal year, in billions of dollars)

| Item | 1988 | 1989 | 1990 | 1991 | 1992 | Cumulative Five-Year Changes |
|--|-------------|-------------|-------------|-------------|-------------|------------------------------------|
| CBO Baseline | 16.8 | 16.3 | 16.5 | 15.6 | 16.4 | |
| Proposed Changes | | | | | | |
| Sales of Financial Assets (Eximbank) | -0.8 | -0.2 | 0.1 | 0.3 | 0.5 | -0.1 |
| Programmatic Changes | | | | | | |
| Foreign military sales | | | | | | |
| MAP grants | 0.2 | 0.4 | 0.4 | 0.3 | 0.3 | 1.6 |
| FMS credits | 0.1 | -0.0 | -0.0 | -0.1 | -0.2 | -0.2 |
| State Department | 0.2 | 0.4 | 0.3 | 0.3 | 0.3 | 1.5 |
| Multilateral development banks | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 1.1 |
| Other | <u>-0.0</u> | <u>-0.1</u> | <u>-0.2</u> | <u>-0.5</u> | <u>-0.7</u> | <u>-1.5</u> |
| Total | 0.6 | 0.9 | 0.7 | 0.4 | -0.1 | 2.5 |
| President's 1988 Budget as Estimated by CBO | 16.6 | 17.0 | 17.3 | 16.3 | 16.8 | |
| President's 1988 Budget | 15.2 | 18.1 | 17.9 | 18.0 | 17.7 | |
| CBO Reestimates | 1.4 | -1.1 | -0.6 | -1.7 | -0.9 | -3.0 |

Proposed Policy Changes

The President's proposals for spending in the international affairs function are above CBO's baseline levels in all years except 1992, with increases totaling \$2.5 billion, or 3 percent, over the 1988-1992 period. The growth is concentrated in foreign military sales financing and military assistance grants, State Department administrative expenses and contributions to

international organizations, and contributions to the multilateral development banks. These programmatic increases are partially offset by proposals for additional sales of assets by the Eximbank, particularly in 1988. Proposed spending for most other programs within the function is lower than the baseline levels because the Administration proposes annual growth at increases equal to half the expected inflation rate.

Export-Import Bank. The Administration is proposing to sell Eximbank loan assets with a face value of \$1.2 billion in fiscal year 1988 and \$1.0 billion per year in years 1989 through 1992 without recourse to the federal government. While the sale of assets will lower the deficits in fiscal years 1988 and 1989, the deficits in future years will increase from the forgone collections from the assets sold. The net five-year budgetary impact of the asset sales would be to lower the deficit by only \$0.1 billion. The Administration is requesting an appropriation of \$200 million for Eximbank in fiscal year 1988 for the grant element of tied-aid credits (credits with a subsidy greater than 25 percent of the loan amount) and \$1 billion in direct loan authority. Direct loan authority drops to \$0.9 billion per year in fiscal years 1989 through 1992, lowering outlays to \$0.1 billion below baseline over the five-year period.

Foreign Military Sales. Foreign military sales financing includes foreign military sales (FMS) credits and military assistance grants--financing for foreign countries to buy U.S. military equipment. The budget proposes \$1.3 billion in budget authority for military assistance grants in 1988--a 43 percent increase over 1987. This increase reflects a growing use of grants in FMS financing. For the five years 1988 through 1992, outlays would rise \$1.6 billion above the CBO baseline. Also, although the President is requesting increases in FMS credits in 1988, funding for these credits would decline relative to the baseline because requested credits would rise by only half the inflation rate.

State Department. Proposed spending for the State Department is above the CBO baseline by \$0.2 billion in fiscal year 1988 and \$1.5 billion over the next five years. The increases are for salaries and expenses, the acquisition and maintenance of buildings abroad, and contributions to international organizations. Approximately \$0.5 billion of the increase is for the embassy security program, while another \$0.2 billion is for assessed contributions to international organizations. The rest is for updating information and computer systems, additional construction projects, wages, benefits, and expenses.

Multilateral Development Banks. Congress has sharply reduced subscriptions and contributions to the multilateral development banks in the last

several years. These reductions are reflected in the CBO baseline because it projects appropriations to increase over 1987 levels only at the rate of inflation. In the 1988 budget, the Administration seeks to recover all arrearages--cuts in previously requested funding levels--in fiscal year 1987 supplementals and higher appropriations for fiscal year 1988. In addition, the Administration is requesting funds to meet existing commitments for an eighth replenishment to the International Development Association and is subscribing to a new institution that promotes investment in developing countries--the World Bank's Multilateral Investment Guarantee Agency. These proposals will increase outlays by \$1.1 billion above the baseline over the next five years.

Other. The President is requesting lower funding levels for voluntary contributions to international organizations, restructuring bilateral development assistance to Africa, and growth in the foreign information and exchange activities. Outlays for other programs overall are lower than the baseline by \$1.5 billion over the next five years.

CBO Reestimates

Foreign Military Sales Debt Restructuring. The Administration is offering countries with FMS loans from the Federal Financing Bank (FFB) the option of prepaying their loans without a penalty or deferring part of the current interest due on their loans and making a lump-sum payment at the end of the loan repayment period. The Administration expects the prepayment option to reduce outlays in the international affairs function by \$1.7 billion in fiscal year 1988 and raise outlays in fiscal years 1989 through 1992 by \$1.1 billion. In addition, the deferred interest option is estimated in the budget to raise outlays in function 900 (net interest) by \$2.0 billion in fiscal years 1988 through 1992. Because few debtor countries are expected to take advantage of the proposal, however, the CBO estimates no budgetary effect for the two options. Overall, CBO expects outlays will be \$1.3 billion higher in 1988, but \$0.7 billion lower in the 1989-1992 period than the Administration estimates.

Guarantee Reserve Fund. CBO estimates that outlays for the Guarantee Reserve Fund (GRF) will be \$0.5 billion higher in 1988, but \$0.2 billion lower over the 1988-1992 period than the Administration's estimate. The higher outlays for the GRF are entirely offset by higher collections by the FFB in function 900. The GRF covers late payments and rescheduled guaranteed FMS loans financed by the FFB. The Administration is proposing no replenishment of the GRF, even though the fund is exhausted; the GRF became insolvent in December 1986 with an account payable of \$23 million.

The FFB held \$18.8 billion in outstanding FMS loans at the start of fiscal year 1987. These loans bear interest rates fixed at the high cost of Treasury borrowing in the early 1980s, with repayment periods extending through the year 2014.

The President's budget assumes that Egypt will seek to defer its \$0.5 billion in interest due in fiscal years 1987 through 1990. The cost of the rescheduling is included in the President's estimate of interest received by the FFB. The CBO baseline and reestimate of the President's request includes the anticipated rescheduling and other late payments as outlays from the GRF requiring appropriation rather than as forgone collections of the FFB.

Foreign Military Sales. Public Law 99-591, Making Continuing Appropriations for Fiscal Year 1987, requires disbursements of Military Assistance Program (MAP) grants and FMS credits to be held to a minimum necessary to meet timely payments on defense goods and services. This requirement and administrative changes dealing with special billings for countries receiving both MAP grants and FMS credits are expected to slow disbursements from appropriated accounts and raise net outlays from the FMS trust fund. For countries receiving both types of aid, the CBO reestimate of the President's budget assumes that MAP grants will be disbursed before new FMS credits, so as to raise MAP outlays. This increase, however, is more than offset by CBO's lower estimate of total outlays for foreign military sales credits as a result of estimated lower sales of military goods and services. On balance, CBO estimates are \$0.3 billion lower in 1988 and \$1.1 billion lower over five years than the Administration's.

Economic Support Fund. The President's estimate assumes all obligated balances of cash programs and all new cash programs will disburse at 100 percent for 1988-1992. Given that \$300 million from cash programs was carried into fiscal year 1987, this assumption appears to be optimistic. The CBO reestimate uses slower outlay rates, yielding an estimate for 1988 that is \$0.4 billion lower than the Administration's and \$1.1 billion lower for the 1988-1992 period.

Exchange Stabilization Fund. Outlays from the Exchange Stabilization Fund (ESF) include gains and losses from exchange transactions and interest income from investments held by the fund, including investments in U.S. government securities. The President's budget outlay estimate for the ESF includes interest on investments in U.S. securities only. The CBO estimate includes interest income on all investments. Neither the CBO nor the Administration estimates outlays based on gains and losses resulting from

exchange transactions. The CBO reestimate is \$0.2 billion lower in 1988 and \$1.3 billion lower for 1988 through 1992.

Credit Programs

Direct Loans. The President is requesting increases over baseline direct loan authority in fiscal year 1988 for foreign military sales credits and Eximbank direct loans. The projected levels for years 1989 through 1992, however, do not keep pace with expected inflation and fall below CBO's baseline by \$1.0 billion over the next five years.

Guaranteed Loans. The President's request for guarantee authority for the Overseas Private Investment Corporation (OPIC) and the Agency for International Development's Housing Investment Guarantee programs is below the baseline. Similarly, the President's request for Eximbank guarantees and insurance is lower than the 1987 limitation. Eximbank has not used all of its guarantee authority in recent years, and the lower limitation is not estimated to constrain its activity.

MAJOR CREDIT PROGRAM CHANGES PROPOSED FOR FUNCTION 150:
INTERNATIONAL AFFAIRS (By fiscal year, in billions of dollars)

| Item | 1988 | 1989 | 1990 | 1991 | 1992 | Cumulative Five-Year Changes |
|--|-------------|-------------|-------------|-------------|-------------|------------------------------------|
| Direct Loan Obligations | | | | | | |
| CBO Baseline | 7.3 | 7.6 | 7.9 | 8.2 | 8.5 | |
| Proposed Changes | | | | | | |
| FMS Credits | 0.2 | 0.1 | 0.0 | -0.1 | -0.2 | 0.1 |
| Public Law 480 | -0.1 | -0.1 | -0.1 | -0.1 | -0.2 | -0.6 |
| Eximbank | <u>0.1</u> | <u>-0.1</u> | <u>-0.1</u> | <u>-0.2</u> | <u>-0.2</u> | <u>-0.5</u> |
| Total | 0.2 | 0.0 | -0.2 | -0.4 | -0.6 | -1.0 |
| President's 1988 Budget as Estimated by CBO | 7.5 | 7.6 | 7.7 | 7.8 | 7.9 | |
| Guaranteed Loan Commitments | | | | | | |
| CBO Baseline | 9.2 | 9.5 | 9.9 | 10.4 | 10.4 | |
| Proposed Changes | | | | | | |
| OPIC | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.4 |
| AID Housing Guarantees | <u>-0.1</u> | <u>-0.1</u> | <u>-0.1</u> | <u>-0.1</u> | <u>-0.1</u> | <u>-0.3</u> |
| Total | -0.1 | -0.1 | -0.1 | -0.2 | -0.2 | -0.7 |
| President's 1988 Budget as Estimated by CBO | 9.1 | 9.4 | 9.8 | 10.2 | 10.3 | |

FUNCTION 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGYMAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 250:
GENERAL SCIENCE, SPACE, AND TECHNOLOGY

(By fiscal year, outlays in billions of dollars)

| Item | 1988 | 1989 | 1990 | 1991 | 1992 | Cumulative Five-Year Changes |
|---|------------|------------|------------|------------|------------|------------------------------------|
| CBO Baseline | 10.7 | 11.5 | 11.9 | 12.2 | 12.4 | |
| Proposed Changes | | | | | | |
| National Science Foundation | 0.1 | 0.3 | 0.4 | 0.7 | 1.0 | 2.4 |
| Department of Energy (General science) | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.7 |
| National Aeronautics and Space Adminis- tration | <u>0.4</u> | <u>0.9</u> | <u>1.2</u> | <u>1.1</u> | <u>0.8</u> | <u>4.4</u> |
| Total | 0.5 | 1.3 | 1.8 | 1.9 | 2.0 | 7.5 |
| President's 1988 Budget as Estimated by CBO | 11.2 | 12.8 | 13.7 | 14.1 | 14.4 | |
| President's 1988 Budget | 11.4 | 13.2 | 13.5 | 13.8 | 14.3 | |
| CBO Reestimates | -0.3 | -0.4 | 0.2 | 0.3 | 0.1 | -0.1 |

Proposed Policy Changes

The President proposes spending above baseline levels in all years for both basic research programs and National Aeronautics and Space Administration (NASA) activities in this function. The major increases relative to the CBO baseline are for NASA and the National Science Foundation (NSF).

Under the President's proposals, NASA outlays over the 1988-1992 period are estimated to be about \$4.4 billion greater than under CBO base-